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OPEB ASSUMPTION MODEL

Method	CalPERS Mandate	Comments
Actuarial Cost Method	Entry Age Normal Cost Method must be used.	<u>Benefits for entry age through attained age</u>: In projecting benefits back from attained age to entry age, the actuary should use a reasonable method, e.g. some historical average increase in past benefit costs, actual historic past benefit costs, a past select and ultimate table of benefit cost changes, etc. <u>Normal Cost in a tiered system</u>: It is acceptable that normal cost be based upon benefits for the current member or based upon the benefits a new entrant would receive (in which case the accrued liability for current participants could be higher).
Asset Valuation Method	The actuarial value of assets shall be determined as the expected actuarial value (bringing forward the prior year's actuarial asset value at the valuation discount rate utilized) plus one-fifteenth of the difference between market value of assets and the expected actuarial value of assets. The resulting actuarial value of assets is to be no more than 120% nor less than 80% of market value.	This is based only on the assets within the CalPERS trust fund. If additional assets of the plan exist outside of the CalPERS trust fund, then the actuary must devise a method of dividing the liabilities between those to be covered by the CalPERS trust and those covered by the outside assets and apply the asset smoothing method required to the CalPERS assets. The actuary will report to CalPERS only the liabilities of the plan to be covered by the CalPERS trust assets. Even if the employer is not contributing the Annual Required Contribution (ARC) to the CalPERS trust fund, the prior year's actuarial value of assets should be brought forward at the full expected return on the CalPERS trust fund.

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Amortization Period	Determined by the plan actuary but not outside of the requirements of GASB 43 and 45. The amortization of the unfunded liability/surplus shall not assume payroll increases greater than 3.25% per annum.	
Demographic Assumptions	If the members are covered by a defined benefit pension plan, then the actuary must use the same pre-retirement decrements, salary growth (due to Seniority, Merit and Promotion) if OPEB benefits are based upon salary, percent married, etc. and post-retirement mortality as the assumptions used for the pension plan valuation. If the members are not covered by a defined benefit pension plan, the plan actuary should, in consultation with the employer sponsor of the OPEB plan chose assumptions that are reasonable and appropriate.	For OPEB plans whose a members are also members of a CalPERS' defined benefit pension plans, the actuary should use the same pre-retirement decrements and post-retirement mortality as is used for CalPERS pension valuations or be able to show and disclose convincing evidence that adjustments to these assumptions are warranted for the OPEB valuation.
Economic Assumptions	General Inflation: 3.0% compounded annually Discount Rate: If the employer's funding policy is to contribute consistently an amount at least equal to the ARC, the discount rate should be the CalPERS' assumed return on the OPEB Trust, currently 7.75% per annum. For employers whose contribution policy is to contribute less than the ARC, but more than pay as you go, the discount rate should be a blended rate that interpolates as prescribed by GASB Statements 43 and 45. For this purpose the discount rate at the ARC end point should be 7.75% and the discount rate for the pay as you	

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	go end point should be between 4% and 5%.	
Health Assumptions	For **vision, dental**, etc., other than medical benefits the actuary is to use a flat trend rate between 4% and 5% per annum. For **medical benefits** there will be the need for six tables of medical cost trend rates as follows: Pre-Medicare Eligible / Post-Medicare Eligible HMO / HMO PPO / PPO Indemnity Plan / Indemnity Plan Each table shall be a select and ultimate table, with the select period of no more than 10 years and the ultimate trend rate must be between 4% and 5%. If there is the need for a separate pharmacy trend rate, it is to be the same as the medical trend rate tables or no more than .5% higher.	For PEMHCA plans, CalPERS will conduct an annual survey early in the valuation year and announce the average trend rates of that survey. Actuaries across California should strive to achieve uniform trend rates assumptions for all PEMHCA employers.
Implicit Rate Subsidy	No methods or assumptions are currently stipulated.	Generally, PEMHCA plans are community rated (except for the State of California) and no age related costs need to be computed. It is also generally true that all non-PEMHCA plans in California are not community related and age related costs will need to be determined, pre-funded and paid out of the trust.
Other Assumptions	Generally left to the individual actuary who must certify that the methods and assumptions are reasonable and appropriate. Examples of these assumptions are:	

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	• Proportion of members that waive coverage at retirement • Proportion of members that chose a particular plan at retirement • Type of coverage (single, couple or family) at (and after) retirement	